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Message Text

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53
ACTION EB-07

INFO OCT-01 AF-06 ARA-06 EA-06 NEA-09 ISO-00 ERDA-05

AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FEAE-00

FPC-01 H-01 INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01

PM-03 SAM-01 OES-03 SP-02 SS-15 STR-01 TRSE-00 FRB-03

/097 W
---------- 076392
R 270850Z FEB 75
FM AMEMBASSY ABU DHABI
TO SECSTATE WASHDC 0000
INFO AMEMBASSY ALGIERS
AMEMBASSY CARACAS
AMEMBASSY JAKARTA
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LAGOS
AMEMBASSY TRIPOLI
AMEMBASSY TEHRAN
AMEMBASSY QUITO
AMEMBASSY DOHA

C O N F I D E N T I A L ABU DHABI 0460

BEIRUT PASS BAGHDAD

E.O. 11652: GDS
TAGS: ENRG, TC
SUBJ: OIL PRODUCTION/PRICE LEVELS CONTINUE IN DISPUTE IN ABU DHABI

REF: ABU DHABI 324

SUMMARY: DESPITE STATEMENT OF MINPET OTAIBA THAT OPERAT-
ING COMPANIES HAVE AGREED RESTORE PRODUCTION TO PREVIOUS LEVELS,
FACT IS THAT PRODUCTION REMAINS DOWN AND NO AGREEMENT REACHED AS
YET. DISCUSSIONS ARE GOING ON, HOWEVER, AND WITH GOVERNMENT--ON
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BASIS ITS OWN EXPERIENCE--NOW AWARE LIMITED DEMAND FOR ABU DHABI

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CRUDE AT CURRENT PRICES, THERE APPEARS BE BASIS FOR AGREEMENT, WITH SALES PROBABLY AT PRICE REFLECTING TOTAL ELIMINATION OF SULFUR PREMIUM. RESULT OF LAST TWO MONTHS RANGLING IS LIKELY BE PUSH BY ADG WITHIN OPEC CIRCLES FOR SOME FORM RATIONING AMONG PRODUCING COUNTRIES.
END SUMMARY.

1. DISPUTE BETWEEN COMPANIES AND GOVERNMENT OVER CRUDE PRODUCTION LEVELS AND PRICING (REFTEL) HAS CONTINUED OVER PAST WEEK. LATEST ROUND HIGHLIGHTED BY TV STATEMENT FEB 19, BY MIN PETROLEUM MANA AL-OTAIBA WHICH THEN REPEATED FOLLOWING DAY'S PRESS. OTAIBA AGAIN ACCUSED OPERATING COMPANIES, ACTING FOR POLITICAL MOTIVES, OF TRYING TO EXERT PRESSURE ON GOVERNMENT BY APPLYING PRECIPITOUS AND UNANNOUNCED CUTS IN PRODUCTION. BUT OTAIBA CLAIMED ABU DHABI GOVERNMENT (ADG) HAD REFUSED GIVE IN--HAD REFUSED NEGOTIATE UNDER PRESSURE. INSTEAD, ACCORDING OTAIBA, COMPANIES HAD FINALLY RETREATED AND HAD RESUMED PRODUCTION AT ESTABLISHED LEVELS (PRESUMABLY SEPT 74 CEILINGS OF 900,000 FOR ADPC AND 420,000 FOR ADMA). THEY HAD ALSO AGREED, OTAIBA SAID, TO COMPENSATE FOR REDUCTIONS OF PAST TWO MONTHS. AS RESULT THIS RETREAT BY COMPANIES, OTAIBA ASSERTED IT HAS BEEN POSSIBLE RESUME THAT DAY (FEB 19) DISCUSSIONS RE BUYBACK PRICES AND FUTURE PRODUCTION LEVELS. EMBOFF SUBSEQUENTLY HEARD FROM HASSAN ABBAS ZAK8, DIRECTOR ABU DHABI FUND FOR ARAB ECONOMIC DEVELOPMENT, THAT COMPANIES HAD PROVIDED WRITTEN COMMITMENT TO MAINTAIN PRODUCTION AT LEVEL 950,000 BPD (ADNOC LIFTINGS PRESUMABLY TO MAKE UP DIFFERENCE WITH ABOVE FIGURES).

2. ON BASIS EMBASSY CONTACTS WITH BOTH ADPC AND ADMA THERE IS ONLY SMALLEST ELEMENT OF FACT IN WHAT OTAIBA SAID. PRODUCTION HAS GONE UP SLIGHTLY IN LAST DAYS OF FEBRUARY (E.G. ADPC PRODUCTION FEB 22 WAS 600,000) BUT IT IS NOWHERE NEAR DECEMBER FIGURES, AND FEBRUARY MONTHLY AVERAGE WILL BE NO BETTER THAN JANUARY--I.E. APPROXIMATELY 500,000 AND 220,000 RESPECTIVELY. MOREOVER COMPANIES INSIST THEY HAVE GIVEN NO COMMITMENTS TO RETURN PRODUCTION TO PREVIOUS LEVELS, MUCH LESS TO COMPENSATE FOR UNDERLIFTINGS. AS FOR ADG-COMPANY TALKS, THESE ONLY INVOLVED ADMA, WHICH, WITH HEAVIER INVESTMENT PROGRAM, IS FACING CASH FLOW PROBLEM. BUT ACCORDING ADMA OFFICIAL, WHILE TALKS HAVE BEEN AMIABLE--LACKING
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ACCUSATIONS AND BLUSTER IN OTAIBA'S PUBLIC STATEMENTS--NO DECISIONS WERE REACHED. RATHER IT WAS AGREED THAT BOTH ADPC AND ADMA OFFICIALS WOULD MEET WITH ADG REPS IN EUROPE THIS WEEK (PRESUMABLY WITH OTAIBA HIMSELF SINCE HE IN VIENNA FOR OPEC MINISTERIAL MEETING).

3. COMPANIES ARE HOPEFUL THAT AGREEMENT CAN BE ACHIEVED. THEY BELIEVE ADG NOW RECOGNIZES THAT COMPANIES' STATEMENTS RE LACK OF DEMAND FOR ABU DHABI CRUDE AT CURRENT PRICES ARE TRUE--THAT PRO-

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DUCTION CUTS HAVE NOT BEEN SIMPLY COMPANY POWER PLAY. THIS HAS BEEN BROUGHT HOME BY ADNOC EXPERIENCE WITH ITS SALES EFFORTS. ABDULLA ISMAIL, OTAIBA'S DEPUTY, TOLD AMBASSADOR, THAT DESPITE CUTS IN SULFUR PREMIUM, ADNOC HAD RECEIVED ABSOLUTELY NO RESPONSE TO LATEST SALES OFFERS (SEE TOKYO 2247 FOR PARTIAL CONFIRMATION) AND ADMA OFFIC IAL
TOLD DCM THAT AS OF FEB 25 ADNOC HAD NOT LIFTED ONE BARREL DURING THE MONTH. BOTH COMPANIES TELL US, MOREOVER, THAT THEY HAVE HEARD SOME OF RESPMNSES RECEIVED BY ADNOC INDICATED REPLIES MIGHT BE DIFFERENT IF FURTHER CUTS OF APPROXIMATELY 30 CENTS WERE MADE--I.E. IF SULFUR PREMIUM DROPPED ENTIRELY, RESULTING IN PRICE IN RANGE $10.70-75 FOR MURBAN. COMPANY REPS INDICATED THEIR SHAREHOLDERS MIGHT BE PREPARED LIFT INCREASED AMOUNTS AT SUCH PRICES AS WELL. BASIS FOR AGREEMENT THEREFORE APPEARS EXIST, WITH PRODUCTION GOING UP IF ADG PREPARED REDUCE PRICE--IN EFFECT SELLING ITS CRUDE WITHOUT SULFUR PREMIUM.

4. COMMENT: WE EXPECT THAT OTAIBA'S LATEST STATEMENT PROMPTED IN LARGE PART BY FACT THAT SHAIKH ZAYID WAS DUE BACK IN COUNTRY TWO DAYS LATER AFTER EXTENDED STAY IN PAKISTAN. THERE ARE INDICATIONS THAT RULER AT BEST ONLY GENERALLY INFORMED OF DEVELOPMENTS IN PETROLEUM FIELD SINCE HE LEFT COUNTRY BEGINNING JANUARY. WITH ADG FEELING FINANCIAL PINCH, OTAIBA PRESUMABLY FELT HE HAD SHOW HE DOING SOMETHING. LIKEWISE APPARENT STATEMENT TO ZAKI
AND PRESUMABLY OTHERS INVOLVED IN HANDLING ADG FINANCES, RE FORMAL COMMITMENT FROM COMPANIES WOULD EASE PRESSURE FROM THAT DIRECTION. NOW, OF COURSE, OTAIBA HAS TO PRODUCE ALREADY PROMISED RESULTS. KEY POINT, HOWEVER, IS THAT PROBLEMS OF LAST TWO MONTHS APPEAR HAVE BROUGHT HOME AT LEAST TO OTAIBA UNCERTAINTIES INVOLVED IN COUNTRY'S PETROLEUM PRODUCTION,
AND HENCE REVENUES. THIS REFLECTED IN COMPLAINT OTAIBA MADE IN HIS TV STATEMENT TO OPEC'S FAILURE TO PROGRAM PRODUCTION OF MEMBER STATES --I.E. PRESUMABLY TO RATION OUTPUT IF THAT RE-
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QUIRED. THIS POINT GENERALLY OBSCURED IN FOCUS ON MINISTER'S "TOUGH"LINE, BUT WE WOULD NOT BE SURPRISED IF IT COMES THROUGH LOUD AND CLEAR IN OPEC COUNCILS AND IS MOST ENDURING ASPECT OF ABU DHABI'S RECENT OIL PROBLEMS.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM PRODUCTION, PETROLEUM INDUSTRY, NEGOTIATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 27 FEB 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975ABUDH00460
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750069-0553
From: ABU DHABI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t1975029/aaaaaheo.tel
Line Count: 159
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 ABU DHABI 324
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 04 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <04 APR 2003 by BoyleJA>; APPROVED <07 APR 2003 by GolinoFR>
Review Markings:

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05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: OIL PRODUCTION/PRICE LEVELS CONTINUE IN DISPUTE IN ABU DHABI
TAGS: ENRG, TC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006